

## Rule of law and happiness in nations

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Happiness differs not only within countries, but also across countries. Average happiness is currently highest in Denmark, where the average on scale 0-10 is 8.4, while the lowest average of 2.5 is observed in present day Tanzania. About 75% of these differences in average happiness in nations can be explained by societal factors, such as economic development, freedom, and rule of law.

‘Rule of law’ in countries is assessed on a regular basis by the World Bank, using an index of the following indicators

- Enforceability of contracts
- Losses and costs of crime
- Violent crime
- Nationalization/ Expropriation
- Crime costs on business
- Confidence in the police force
- Property right
- Independence of judiciary
- Respect for law in relations between citizens and the administration

We assessed the correspondence between country scores on this index with data on average happiness in nations taken from the World Database of Happiness. See the scatterplot below.

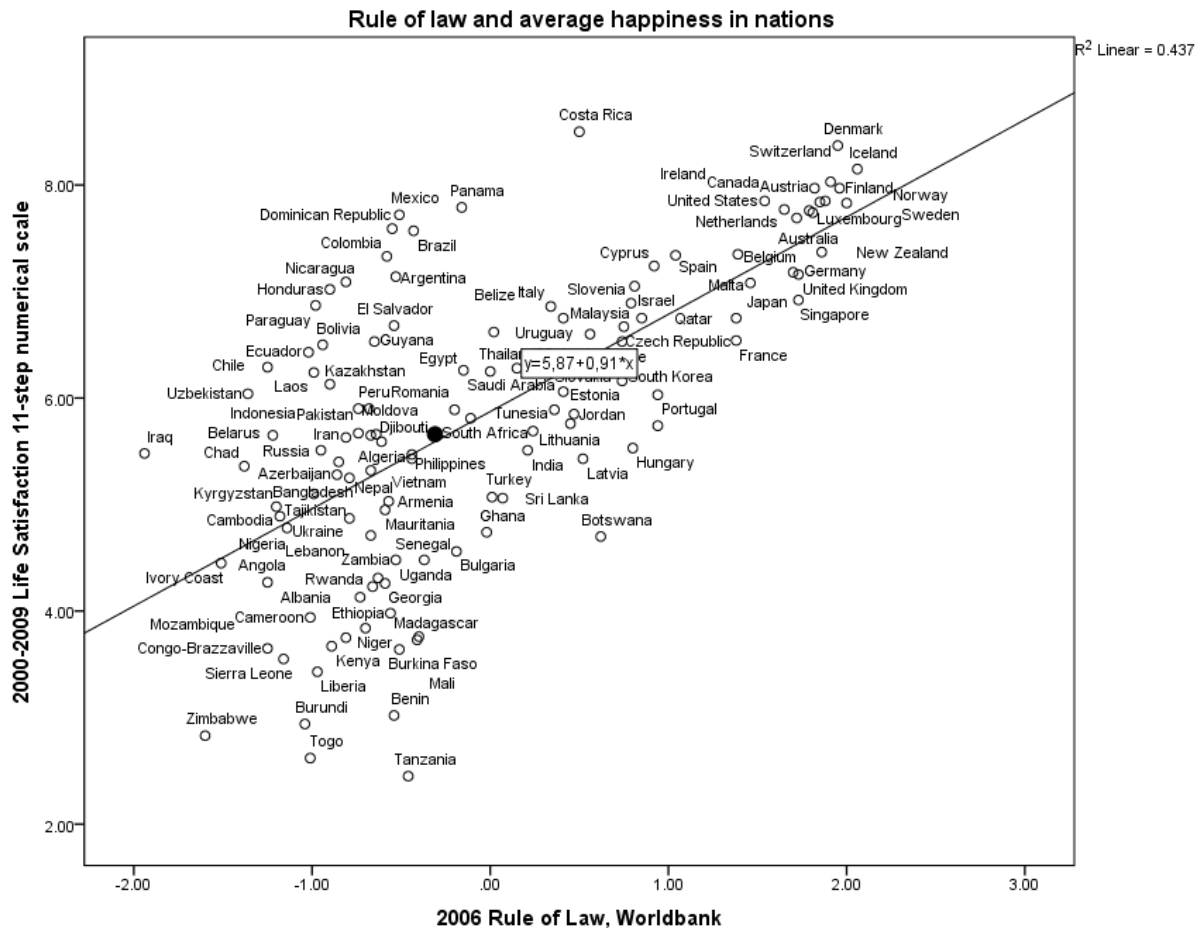
A strong linear correlation appears. At the bottom-left of this country we see several African nations, such as Zimbabwe, Togo and Tanzania where poor rule of law goes together with low happiness, while at the right-top we see countries North European like Denmark and Switzerland where with good rule of law is accompanied with high average happiness. South Africa is situated in the middle of the scattergram, both with respect to rule of law and happiness.

The correlation is likely to be driven by more factors than just rule of law. The low happiness in Tanzania is evidently also due to its poverty and the high happiness in Denmark also due to its wealth. To get a view on the net effect of rule of law, we calculated the effect of rule of law net of wealth, controlling the correlation for income per head. A sizable correlation remained, the partial correlation being +.34.

How can rule of law in a country affect the happiness of its citizens? One factor will be perceptions of fairness, though many citizens are probably only dimly aware of the juridical system in their country, if not misinformed. A more indirect effect seems to be in the creation of a predictable environment in which people can pursue their goals more efficiently. In institutional economics rule of law is seen to reduce ‘transaction costs’, thereby facilitating exchange and thus fostering economic development. In a similar way, rule of law in one’s

country will allow individuals more choice and make them less dependent on kin.

In this view, concern for rule of law is not a culture specific value, but rather a universal condition for happiness.



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